

**HOUGHTON LAKE COMMUNITY SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Houghton Lake Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Houghton Lake Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2008, on our consideration of Houghton Lake Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi - xii and 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Houghton Lake Community Schools' basic financial statements. The additional information on pages 27 to 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mayer, Costeniser & Ellis, P.C.*

October 24, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Houghton Lake Community Schools (HLCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### **FINANCIAL OVERVIEW**

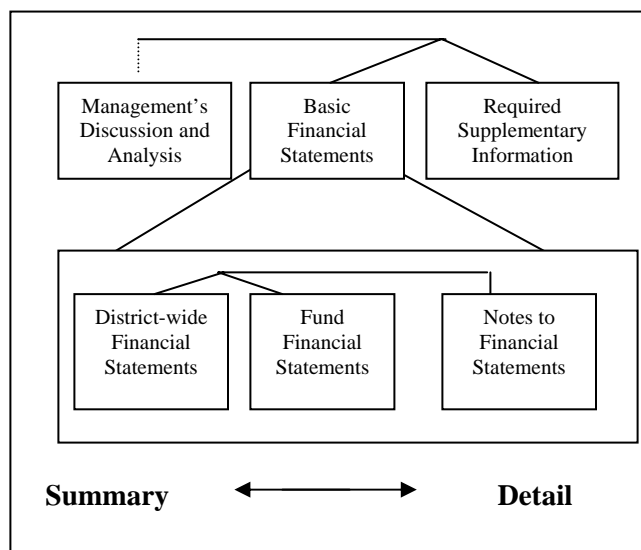
- The District's general fund financial situation did improve from the 2007 fiscal year to 2008. This is the second consecutive year in which the general fund showed improvement, despite declining enrollment.
- For the 2007-2008 school year, general fund equity was increased by \$642,164.
- During the 2007-2008 school year compared to 2006-2007, general fund revenues decreased 1.84 percent, while expenditures decreased by 1.81 percent.
- Student enrollment decreased by 88 students from September of 2006 to September of 2007. This represents a decline of approximately 4.8 percent from the September 2006 figure.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like instruction and support services were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

**Figure A-1**  
**Organization of Houghton Lake**  
**Community Schools' Annual Financial**



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<b>Figure A-2</b> <b>Major Features of District-Wide and Fund Financial Statements</b>			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Houghton Lake's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

### **DISTRICT-WIDE STATEMENTS**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.



## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's combined net assets were more on June 30, 2008 than the year before, increasing by \$559,178 to \$3,494,898.

<b>Table A-3</b>		
<b>Houghton Lake Community Schools Net Assets</b>		
	2008	2007
Current assets	\$ 2,857,651	\$ 3,248,220
Capital assets and other	3,531,453	3,842,736
Total assets	6,389,104	7,090,956
Long-term debt outstanding	1,689,942	1,780,179
Other liabilities	1,204,264	2,375,057
Total liabilities	2,894,206	4,155,236
Net assets:		
Invested in capital assets, net of related debt	2,323,088	2,637,373
Restricted for debt service	163,697	104,040
Unrestricted	1,008,113	194,307
Total net assets	\$ 3,494,898	\$ 2,935,720

<b>Table A-4</b>		
<b>Changes in Houghton Lake Community Schools' Net Assets</b>		
	<b>2008</b>	<b>2007</b>
Revenues:		
Program revenues:		
Charges for services	\$ 385,275	\$ 436,811
Federal and state categorical grants	2,864,816	2,720,414
General revenues:		
Property taxes	7,850,874	7,481,294
Investment	127,431	231,239
State aid - unrestricted	4,796,590	5,561,961
Other	375,387	285,166
Total revenues	<u>16,400,373</u>	<u>16,716,885</u>
Expenses:		
Instruction	9,439,545	9,695,322
Support services	5,452,999	5,277,409
Food services	589,535	584,442
Athletics	214,388	217,102
Interest on long-term debt	16,846	20,858
Unallocated depreciation	127,882	140,048
Total expenses	<u>15,841,195</u>	<u>15,935,181</u>
Change in net assets	<u>\$ 559,178</u>	<u>\$ 781,704</u>

### **District Governmental Activities**

The District's financial condition has come about through a number of areas.

- Proposal A which established the student foundation grant concept, and has increased that amount from \$4,352 per student in 1995 to \$7,204 per student in 2008.
- The District continues to evaluate its operations to balance its general fund activities.
- The District was able to gain stability in the offices of the Superintendent and Business Manager during the 2007-2008 year.

### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

For the District as a whole its *combined* fund balance is \$1,947,102 compared to \$1,153,953 in 2007. The fund balance increased by \$793,149 for the year primarily due to \$642,164 of activity in the general fund.

### **General Fund and Budget Highlights**

During the 2007-2008 fiscal year the original District budget was amended several times to reflect changes which affected the District. The final budget was amended to show a current year balance of \$883,364 while the actual fund balance for the year was \$1,452,819. The better-than-anticipated final result was due largely to a favorable decision regarding a federal maintenance of effort shortfall.

During the 2007-2008 year the District finally benefited from stability in its central offices. While both the offices of Superintendent and Business Manager were filled on an interim basis during at least part of the 2006-2007 school year, 2007- 2008 saw the hiring of a full-time permanent Business Manager and the continuing service of the full-time permanent Superintendent hired during the 2006-2007 year.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The District's capital assets are as follows:

<b>Table A-5</b>				
<b>Houghton Lake Community Schools' Capital Assets</b>				
	<b>2008</b>			<b>2007</b>
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>	<b>Net book value</b>
Land			\$ -	\$ -
Buildings and improvements	11,497,212	8,570,972	2,926,240	3,195,219
Machinery and equipment	1,173,671	1,045,942	127,729	135,658
Transportation equipment	1,584,630	1,306,318	278,312	368,478
Total	<u>\$ 14,255,513</u>	<u>\$ 10,923,232</u>	<u>\$ 3,332,281</u>	<u>\$ 3,699,355</u>

The original cost of land is not determinable and is recorded at zero.

### **LONG-TERM DEBT**

At year end the District had \$1,809,010 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 7 to the financial statements.

<b>Table A-6</b>		
<b>Houghton Lake Community Schools</b>		
<b>Outstanding Long-Term Debt</b>		
	<b>2008</b>	<b>2007</b>
QZAB bonds	\$ 1,000,000	\$ 1,000,000
Notes payable	153,206	204,274
Compensated absences and termination benefits	655,804	738,973
	<u>\$ 1,809,010</u>	<u>\$ 1,943,247</u>

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of four existing circumstances that could significantly affect its financial health in the future:

- The District participates in the Michigan Public School Employees Retirement System (MPERS). MPERS' contribution rate is based on the rate of return earned on the plan assets held at the state level. For the 2007-08 school year and for the upcoming 2008-09 fiscal year, the contribution rate has been artificially lowered due to the actions of the legislature through Public Act 6 of 2007. The District believes that Public Act 6 of 2007 is only delaying the inevitable actuarial increase in the MPERS' contribution rate.
- Contracts with the District's three bargaining units expire at June 30, 2009. The District believes it will be able to negotiate fair contracts for the fiscal year beginning July 1, 2009.
- The impact of declining enrollment continues to affect the District. The 2007-08 fall pupil count was 88 pupils lower than the fall count for the 2006-07 year. The District does not anticipate the trend of declining enrollment to cease any time soon. The District is able to combat the resulting decline in revenues through appropriately sizing its staff. To a high degree this will be accomplished through attrition, as the District has many employees near retirement age.
- The State of Michigan is experiencing troubled economic times. Due to the deterioration of the financial health of the automotive industry, which has been Michigan's primary economic boon for decades, the ability of the state to fully fund its school foundation allowance promises has been jeopardized. In three of the past seven years the state has been forced to lower school funding from its original promises. State aid represents 38 percent of general fund revenue for the District.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Houghton Lake Community Schools, 6001 W. Houghton Lake Drive, Houghton Lake, Michigan 48629.

## **BASIC FINANCIAL STATEMENTS**

**HOUGHTON LAKE COMMUNITY SCHOOLS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

	<b>Governmental activities</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash	\$ 669,897
Investments	625,221
Receivables:	
Other governmental units	1,493,251
Interest income	39,066
Inventories	2,934
Prepaid expenditures	27,282
<b>TOTAL CURRENT ASSETS</b>	<b>2,857,651</b>
<b>NONCURRENT ASSETS:</b>	
Cash - restricted for debt service set- aside	954
Investments - restricted for debt service set - aside	168,218
Capital assets	14,255,513
Less accumulated depreciation	(10,923,232)
Deferred charges net of amortization	30,000
<b>TOTAL NONCURRENT ASSETS</b>	<b>3,531,453</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,389,104</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 138,173
Accrued interest payable	5,475
Accrued salaries and related items	833,200
Deferred revenue	57,437
Due to other governmental units	50,911
Current portion of long-term obligations	51,068
Current portion of severance and termination benefits	20,000
Current portion of compensated absences	48,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,204,264</b>
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent portion of long-term obligations	1,102,138
Noncurrent severance and termination benefits	164,283
Noncurrent compensated absences	423,521
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,689,942</b>
<b>TOTAL LIABILITIES</b>	<b>2,894,206</b>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	2,323,088
Restricted - debt service	163,697
Unrestricted	1,008,113
<b>TOTAL NET ASSETS</b>	<b>3,494,898</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,389,104</b>

**HOUGHTON LAKE COMMUNITY SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2008**

Functions/program:	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities				
Instruction	\$ 9,439,545	\$	\$ 1,973,644	\$ (7,465,901)
Support services	5,337,069	-	393,741	(4,943,328)
Food services	589,535	203,459	497,431	111,355
Athletics	214,388	181,816		(32,572)
Interest on long-term deb	16,846			(16,846)
Unallocated depreciator	127,882			(127,882)
Total governmental activities	<u>\$ 15,725,265</u>	<u>\$ 385,275</u>	<u>\$ 2,864,816</u>	<u>(12,475,174)</u>
General revenues				
Property taxes, levied for general purposes				7,850,874
Investment earnings				127,431
State sources				4,796,590
Other				<u>375,387</u>
Total general revenues				<u>13,150,282</u>
<b>CHANGE IN NET ASSETS</b>				<u>675,108</u>
<b>NET ASSETS</b> , beginning of year				<u>2,935,720</u>
<b>NET ASSETS</b> , end of year				<u>\$ 3,610,828</u>

HOUGHTON LAKE COMMUNITY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	General fund	Other nonmajor governmental funds	Total governmental funds
ASSETS			
ASSETS:			
Cash	\$ 396,687	\$ 273,210	\$ 669,897
Investments	625,221	-	625,221
Receivables:			-
Other governmental units	1,493,251	-	1,493,251
Accounts receivable	3,037	36,029	39,066
Due from other funds	98,164	214,930	313,094
Inventories	-	2,934	2,934
Prepaid expenditures	27,282	-	27,282
Cash - restricted for debt service set- aside	-	954	954
Investments - restricted for debt service set-aside	-	168,218	168,218
TOTAL ASSETS	\$ 2,643,642	\$ 696,275	\$ 3,339,917
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 109,838	\$ 28,335	\$ 138,173
Accrued salaries and related items	833,200	-	833,200
Deferred revenue	57,437	-	57,437
Due to other governmental units	50,911	-	50,911
Due to other funds	139,437	173,657	313,094
TOTAL LIABILITIES	1,190,823	201,992	1,392,815

	General fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:			
Reserved for debt service	\$ -	\$ 169,172	\$ 169,172
Reserved for prepaid expenditure	27,282	-	27,282
Reserved for inventories	-	2,934	2,934
Designated for capital projects	-	114,013	114,013
Designated for repairs and maintenance	118,780	-	118,780
Unreserved, undesignated	1,306,757	208,164	1,514,921
TOTAL FUND BALANCES	1,452,819	494,283	1,947,102
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,643,642	\$ 696,275	\$ 3,339,917

Total governmental fund balance		\$ 1,947,102
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital assets is	\$ 14,255,513	
Accumulated depreciation is	(10,923,232)	3,332,281
The value of unamortized bond issuance costs	37,500	
Accumulated amortization	(7,500)	30,000
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Accrued severance and termination benefit		(184,283)
Bonds payable and unamortized premium		(1,153,206)
Compensated absences		(471,521)
Accrued interest is not included as a liability in government funds, it is recorded when paid		(5,475)
Net assets of governmental activities		\$ 3,494,898



**HOUGHTON LAKE COMMUNITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2008**

	General fund	Other nonmajor governmental funds	Total governmental funds
<b>REVENUES:</b>			
Local sources:			
Property taxes	\$ 7,850,874	\$ -	\$ 7,850,874
Investment income	119,603	7,828	127,431
Other	211,287	385,275	596,562
Total local sources	8,181,764	393,103	8,574,867
State sources	5,936,096	47,005	5,983,101
Federal sources	1,227,879	450,426	1,678,305
Incoming transfers and other transactions	162,580	-	162,580
Total revenues	15,508,319	890,534	16,398,853
<b>EXPENDITURES:</b>			
Current:			
Instruction	9,291,965		9,291,965
Support services	5,331,971		5,331,971
Community services	115,930		115,930
Athletics		208,543	208,543
Food service		589,535	589,535
<b>EXPENDITURES (Concluded):</b>			
Debt service:			
Payments on debt	\$ 51,068	\$ -	\$ 51,068
Interest and fiscal charges	8,212	10,000	18,212
Total expenditures	14,799,146	808,078	15,491,294
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	709,173	82,456	791,629
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from sale of capital assets	1,520	-	1,520
Operating transfers in	46,155	114,684	160,839
Operating transfers (out)	(114,684)	(46,155)	(160,839)
Total other financing sources (uses)	(67,009)	68,529	1,520
<b>NET CHANGE IN FUND BALANCES</b>	642,164	150,985	793,149
<b>FUND BALANCES:</b>			
Beginning of year	810,655	343,298	1,153,953
End of year	\$ 1,452,819	\$ 494,283	\$ 1,947,102

**HOUGHTON LAKE COMMUNITY SCHOOLS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007**

<b>Net change in fund balances total governmental fund</b>	<b>\$ 793,149</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(388,487)
Capital outlay	21,413
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	6,841
Accrued interest payable, end of the year	(5,475)
Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities)	
Repayments of principal on long-term debt	51,068
Amortization expense	(2,500)
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences, beginning of the year	498,076
Accrued compensated absences, end of the year	(471,521)
Accrued severance and termination benefits, beginning of the year	240,897
Accrued severance and termination benefits, end of the year	(184,283)
<b>Change in net assets of governmental activitie</b>	<b>\$ 559,178</b>

**HOUGHTON LAKE COMMUNITY SCHOOLS**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**JUNE 30, 2008**

	<u>Agency funds</u>
<b>ASSETS</b>	
Cash	\$ 278,636
Accounts receivable	<u>1,760</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 280,396</u></u>
<b>LIABILITIES</b>	
Due to Houghton Lake Community Schools	\$ 273
Accounts payable	2,626
Due to student groups	<u>277,497</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 280,396</u></u>

## **HOUGHTON LAKE COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Houghton Lake Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

#### **A. Reporting Entity**

The Houghton Lake Community Schools (the "District") is governed by the Houghton Lake Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The District's reporting entity contains no significant component units as defined in GASB Statements No. 14 and 39.

#### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Continued)**

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

**Other Non-major Funds**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* accounts for the resources accumulated and payments for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* accounts for the receipt of the QZAB bond proceeds and the acquisition of fixed assets or construction of capital projects.

## HOUGHTON LAKE COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **B. Government-wide and Fund Financial Statements (Concluded)**

##### **Other Non-major Funds (Concluded)**

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

##### **Accrual Method**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

##### **Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when appropriation is received.

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

**D. Other Accounting Policies (Continued)**

1. Cash and equivalents (Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund - Non-homestead	18.0000

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.



**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years
Land improvement	20 years
Transportation equipment	8 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District's contracts generally provide for granting vacation, sick leave with pay and contain termination incentives. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements upon the legally enforceable due date.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue, debt service and capital projects funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK**

As of June 30, 2008, the District had the following investments.

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard &amp; Poor's rating</u>	<u>%</u>
MILAF External Investment pool - MIMAX	<u>\$ 625,221</u>	0.0027	AAAm	<u>100.00%</u>
Total fair value	<u><u>\$ 625,221</u></u>			<u><u>100.00%</u></u>
Portfolio weighted average maturity		<u><u>0.0027</u></u>		
1 day maturity equals 0.0027, one year equals 1.00				

**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)**

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the District’s investments is the same as the value of the pool shares.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2008, \$1,291,102 of the District’s bank balance of \$1,591,102 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$1,117,705.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)**

The above amounts are previously reported in Note 3:

Deposits	\$ 1,117,705
Investments	625,221
	<u>\$ 1,742,926</u>

The above amounts are reported in the financial statements as follows:

Cash - district-wide restricted	\$ 954
Cash - district-wide	669,897
Cash - agency fund	278,636
Investments - unrestricted	625,221
Investments - restricted	168,218
	<u>\$ 1,742,926</u>

**NOTE 4 - RECEIVABLES**

Receivables from governmental units at June 30, 2008 consist of the following:

	<u>General fund</u>
Other governmental units:	
State aid	\$ 1,060,645
Federal revenue	282,658
Other	149,948
	<u>\$ 1,493,251</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets, being depreciated				
Site improvements	\$ 245,168	\$ -	\$ -	\$ 245,168
Buildings and improvements	11,252,044	-	-	11,252,044
Machinery and equipment	1,152,258	21,413	-	1,173,671
Transportation equipment	1,584,630	-	-	1,584,630
Total capital assets, being depreciated	14,234,100	21,413	-	14,255,513
Accumulated depreciation:				
Land improvements	183,782	4,234	-	188,016
Buildings and additions	8,118,211	264,745	-	8,382,956
Machinery and equipment	1,016,600	29,342	-	1,045,942
Transportation equipment	1,216,152	90,166	-	1,306,318
Total accumulated depreciation	10,534,745	388,487	-	10,923,232
Net capital assets being depreciated	3,699,355	(367,074)	-	3,332,281
Net governmental capital assets	\$ 3,699,355	\$ (367,074)	\$ -	\$ 3,332,281

Depreciation for the fiscal year ended June 30, 2008 amounted to \$388,487. The District allocated depreciation expense to the various activities as follows:

Instruction	\$ 252,162
Support services	2,598
Athletics	5,845
Unallocated	127,882
	<u>\$ 388,487</u>

Depreciation of capital assets that serve multiple functions is recorded as unallocated. Original cost of land is not determinable and is recorded at zero.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - NOTES PAYABLE**

At June 30, 2008, the District has a note payable outstanding of \$0. The tax anticipation note of \$995,000 was paid in full by March 27, 2008. The note was secured by the full faith and credit of the District as well as pledged property taxes.

Balance June 30, 2007	Additions	Payments	Balance June 30, 2008
\$ 995,000	\$ -	\$ 995,000	\$ -

**NOTE 7 - LONG-TERM DEBT**

The District may issue general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

The following is a summary of the long-term debt transactions of the District for the year end June 30, 2008:

	Notes payable	QZAB bonds	Sub-total bonds & notes	Voluntary termination benefits	Compensated absences	Severance benefits	Total
Balance, July 1, 2006	\$ 204,274	\$ 1,000,000	\$ 1,204,274	\$ 45,000	\$ 498,076	\$ 195,897	\$ 1,943,247
Deletions	51,068		51,068	45,000	26,555	11,614	134,237
Balance, June 30, 2007	153,206	1,000,000	1,153,206	-	471,521	184,283	1,809,010
Less current portion	51,068		51,068	-	48,000	20,000	119,068
Total due after one year	\$ 102,138	\$ 1,000,000	\$ 1,102,138	\$ -	\$ 423,521	\$ 164,283	\$ 1,689,942

**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT (Continued)**

Long-term obligation debt at June 30, 2008 is comprised of the following:

2005 School Building Bond is due in one installment on June 21, 2021. The bond was issued under the Qualified Zone Academy Bond program. Interest is reduced to 1.00% through a tax credit. A set-aside amount of \$64,684 is required each year. Interest of 2.75% will be earned on the set-aside account.	<u>\$ 1,000,000</u>
Total bonded debt	1,000,000
Chase Bank note for purchase of a bus with annual payments of \$51,068 to \$51,070 through October 21, 2011, at 4.02% interest rate.	153,206
Obligation under contract from compensated absences	471,521
Obligation under contract from severance incentives	<u>184,283</u>
Total long-term debt	<u><u>\$ 1,809,010</u></u>

Interest expense (all funds) for the year ended June 30, 2008 was \$56,163.



**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT (Concluded)**

The annual requirements to amortize long-term debt outstanding as of June 30, 2008, including interest of \$142,318 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 51,068	\$ 16,159	\$ 67,227
2010	51,069	14,106	65,175
2011	51,069	12,053	63,122
2012	-	10,000	10,000
2013	-	10,000	10,000
2014 - 2018	-	50,000	50,000
2019 - 2022	1,000,000	30,000	1,030,000
Total	1,153,206	142,318	1,295,524
Accumulated compensated absences	471,521	-	471,521
Accumulated severance benefits	184,283	-	184,283
	<u>\$ 1,809,010</u>	<u>\$ 142,318</u>	<u>\$ 1,951,328</u>

**NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund payable and receivable balances at June 30, 2008 are as follows:

Receivable fund	Payable fund
General \$ 98,164	General \$ 139,437
School lunch fund 150,240	School lunch fund 29,254
Athletics 50,000	Athletics 144,403
Capital projects 14,690	
<u>\$ 313,094</u>	<u>\$ 313,094</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in accounting systems, and (3) payments between funds are made.

## **HOUGHTON LAKE COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS**

### **NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 were 17.74% of payroll through September 30, 2007 and 16.72% effective October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2008, 2007 and 2006 were approximately \$1,420,000, \$1,480,000 and \$1,578,000, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement benefits or other post-employment benefits which is the responsibility of the State of Michigan.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

**NOTE 11 - TRANSFERS**

The general fund transferred \$64,684 to the QZAB debt service fund to fund the required set aside funding requirement and \$50,000 to the Athletic Fund to subsidize operations in this fund. The school lunch fund transferred \$46,155 to the general fund for current year indirect costs.

**NOTE 12 - SUBSEQUENT EVENTS**

Subsequent to year-end, the District has entered into an agreement to borrow \$750,000 to replace the note payable as described in Note 6. The note bears interest at 2.85% and matures November 21, 2008.

On August 5, 2008, the qualified electors of the District approved a \$7,150,000 bond issue.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**HOUGHTON LAKE COMMUNITY SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2008**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget positive (negative)</b>
<b>REVENUES:</b>				
Local	\$ 7,599,360	\$ 8,096,630	\$ 8,181,764	\$ 85,134
State sources	5,800,640	5,889,595	5,936,096	46,501
Federal sources	1,139,900	1,137,803	1,227,879	90,076
Incoming transfers and other transaction:	191,700	146,000	162,580	16,580
Total revenues	14,731,600	15,270,028	15,508,319	238,291
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	6,784,383	7,206,855	7,172,090	34,765
Added needs	2,052,608	2,051,720	2,033,746	17,974
Adult Education	105,760	101,359	86,129	15,230
Total instruction	8,942,751	9,359,934	9,291,965	67,969
Support services:				
Pupil	891,060	904,048	896,781	7,267
Instructional staff	351,837	340,856	320,948	19,908
General administration	356,106	401,751	366,171	35,580
School administration	947,264	959,083	946,251	12,832
Business	414,091	419,976	369,512	50,464
Operations/maintenance	1,306,323	1,448,093	1,393,424	54,669
Transportation	796,933	911,579	862,083	49,496
Central services	152,495	184,735	176,801	7,934
Total support services	5,216,109	5,570,121	5,331,971	238,150
Community services	83,256	128,780	115,930	12,850
Debt service	59,300	59,320	59,280	40
Total expenditures	14,301,416	15,118,155	14,799,146	319,009
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	430,184	151,873	709,173	557,300
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of capital assets		1,520	1,520	
Operating transfers in		34,000	46,155	12,155
Operating transfers (out)	(132,900)	(114,684)	(114,684)	
Total other financing sources (uses)	(132,900)	(79,164)	(67,009)	12,155
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 297,284</u>	<u>\$ 72,709</u>	642,164	<u>\$ 569,455</u>
<b>FUND BALANCE:</b>				
Beginning of year			810,655	
End of year			<u>\$ 1,452,819</u>	

## **ADDITIONAL INFORMATION**

**HOUGHTON LAKE COMMUNITY SCHOOLS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND TYPES  
JUNE 30, 2008**

	<b>Special revenue</b>	<b>QZAB debt service</b>	<b>Capital projects</b>	<b>Total nonmajor governmental funds</b>
<b>ASSETS</b>				
<b>ASSETS:</b>				
Cash	\$ 173,887	\$ -	\$ 99,323	\$ 273,210
Cash - restriced for debt service set-aside	-	954	-	954
Investments - restricted for debt service set-aside	-	168,218	-	168,218
Receivables:				
Accounts receivable	36,029	-	-	36,029
Due from other funds	200,240	-	14,690	214,930
Inventories	2,934	-	-	2,934
<b>TOTAL ASSETS</b>	<b>\$ 413,090</b>	<b>\$ 169,172</b>	<b>\$ 114,013</b>	<b>\$ 696,275</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 28,335	\$ -	\$ -	\$ 28,335
Due to other funds	173,657	-	-	173,657
<b>TOTAL LIABILITIES</b>	<b>201,992</b>	<b>-</b>	<b>-</b>	<b>201,992</b>
<b>FUND BALANCES:</b>				
Reserved for debt service	-	169,172	-	169,172
Reserved for inventories	2,934	-	-	2,934
Designated for capital projects	-	-	114,013	114,013
Unreserved, undesignated	208,164	-	-	208,164
<b>TOTAL FUND BALANCES</b>	<b>211,098</b>	<b>169,172</b>	<b>114,013</b>	<b>494,283</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 413,090</b>	<b>\$ 169,172</b>	<b>\$ 114,013</b>	<b>\$ 696,275</b>

**HOUGHTON LAKE COMMUNITY SCHOOLS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30, 2008**

	<u>Special revenue</u>	<u>QZAB debt service</u>	<u>Capital projects</u>	<u>Total nonmajor governmental funds</u>
<b>REVENUES:</b>				
Local sources:				
Investment income	\$	\$ 3,607	\$ 4,221	\$ 7,828
Other	385,275			385,275
Total local sources	385,275	3,607	4,221	393,103
State sources	47,005			47,005
Federal sources	450,426			450,426
Total revenues	882,706	3,607	4,221	890,534
<b>EXPENDITURES:</b>				
Current :				
Athletics	208,543			208,543
Food service	589,535			589,535
Debt service:				
Interest and fiscal charges		10,000		10,000
Total expenditures	798,078	10,000		808,078
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	84,628	(6,393)	4,221	82,456
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	50,000	64,684		114,684
Operating transfers (out)	(46,155)			(46,155)
Total other financing sources (uses)	3,845	64,684		68,529
<b>NET CHANGE IN FUND BALANCES</b>	88,473	58,291	4,221	150,985
<b>FUND BALANCES:</b>				
Beginning of year	122,625	110,881	109,792	343,298
End of year	<u>\$ 211,098</u>	<u>\$ 169,172</u>	<u>\$ 114,013</u>	<u>\$ 494,283</u>



**HOUGHTON LAKE COMMUNITY SCHOOLS  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008  
(with comparative totals for June 30, 2007)**

			<b>Totals</b>	
	<b>School lunch fund</b>	<b>Athletics fund</b>	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>				
Cash and investments	\$ 75,620	\$ 98,267	\$ 173,887	\$ 232,263
Accounts receivable	16,030	19,999	36,029	20,814
Due from other funds	150,240	50,000	200,240	38,973
Inventory	2,934		2,934	2,261
<b>TOTAL ASSETS</b>	<b>\$ 244,824</b>	<b>\$ 168,266</b>	<b>\$ 413,090</b>	<b>\$ 294,311</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 27,745	\$ 590	\$ 28,335	\$ 127,808
Due to other funds	29,254	144,403	173,657	43,878
<b>TOTAL LIABILITIES</b>	<b>56,999</b>	<b>144,993</b>	<b>201,992</b>	<b>171,686</b>
<b>FUND BALANCES:</b>				
Reserved for inventories	2,934		2,934	2,261
Undesignated	184,891	23,273	208,164	120,364
<b>TOTAL FUND BALANCES</b>	<b>187,825</b>	<b>23,273</b>	<b>211,098</b>	<b>122,625</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 244,824</b>	<b>\$ 168,266</b>	<b>\$ 413,090</b>	<b>\$ 294,311</b>

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2008  
(with comparative totals for June 30, 2007)**

			<b>Totals</b>	
	<b>School lunch fund</b>	<b>Athletics fund</b>	<b>2008</b>	<b>2007</b>
<b>REVENUES:</b>				
Food service	\$ 203,459	\$	\$ 203,459	\$ 203,911
Athletics		181,816	181,816	196,313
State sources	47,005		47,005	68,525
Federal sources	450,426		450,426	438,140
Total revenues	700,890	181,816	882,706	906,889
<b>EXPENDITURES:</b>				
Salaries and wages	5,000	116,644	121,644	311,348
Employee benefits	6,171	32,815	38,986	56,253
Supplies and other expenses	578,364	59,084	637,448	427,822
Total expenditures	589,535	208,543	798,078	795,423
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	111,355	(26,727)	84,628	111,466
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfer in from general fund		50,000	50,000	
Operating transfer (out) to general fund	(46,155)		(46,155)	8,679
Total other financing sources (uses)	(46,155)	50,000	3,845	8,679
<b>NET CHANGE IN FUND BALANCES</b>	65,200	23,273	88,473	120,145
<b>FUND BALANCES:</b>				
Beginning of year	122,625	-	122,625	2,480
End of year	\$ 187,825	\$ 23,273	\$ 211,098	\$ 122,625

**HOUGHTON LAKE COMMUNITY SCHOOLS  
 AGENCY FUNDS  
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
 YEAR ENDED JUNE 30, 2008**

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Agency funds - due to student groups	<u>\$ 264,353</u>	<u>\$ 395,850</u>	<u>\$ 382,706</u>	<u>\$ 277,497</u>

**HOUGHTON LAKECOMMUNITY SCHOOLS  
BONDED DEBT  
YEAR ENDED JUNE 30, 2007**

2005 Qualified Zone Academy Bonds

Calendar Year	Interest rate	Principal due June 21
2021	1.00%	<u>\$ 1,000,000</u>

The above bonds dated June 21, 2005 were issued for the purpose of financing renovations and improvements to school properties. The amount of the original bond issue was \$1,000,000.

Bonds of this issue are not subject to redemption prior to maturity.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF INSTALLMENT NOTE PAYABLE  
YEAR ENDED JUNE 30, 2008**

\$255,342 installment notes payable dated October 21, 2005 for bus purchase.

Principal due October 21,	Interest due October 21,	Debt service requirement	
		June 30,	Amount
\$ 51,068	\$ 6,159	2009	\$ 57,227
51,069	4,106	2010	55,175
51,069	2,053	2011	53,122
<u>\$ 153,206</u>	<u>\$ 12,318</u>		<u>\$ 165,524</u>

The above notes have an interest rate of 4.02%.

**HOUGHTON LAKE COMMUNITY SCHOOLS**

**ADDITIONAL REPORTS REQUIRED BY  
OMB CIRCULAR A-133**

**YEAR ENDED JUNE 30, 2008**

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James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis  
James A. McNeeley  

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Houghton Lake Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools as of and for the year ended June 30, 2008, which collectively comprise Houghton Lake Community Schools' basic financial statements and have issued our report thereon dated October 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Houghton Lake Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was limited for the purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described as 2008-01, in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.



A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above as 2008-01, we consider to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Houghton Lake Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Houghton Lake Community Schools in a separate letter dated October 24, 2008.

Houghton Lake Community Schools' responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit Houghton Lake Community Schools' responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mamie Costeniser E. Ellis, P.C.*

October 24, 2008



Lamonte T. Lator  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

To the Board of Directors  
Houghton Lake Community Schools

**Compliance**

We have audited the compliance of Houghton Lake Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Houghton Lake Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Houghton Lake Community Schools' management. Our responsibility is to express an opinion on Houghton Lake Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Houghton Lake Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Houghton Lake Community Schools' compliance with those requirements.

In our opinion, Houghton Lake Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

## Internal Control Over Compliance

The management of Houghton Lake Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Houghton Lake Community Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of Houghton Lake Community Schools' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Houghton Lake Community Schools' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-2 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs as 2008-2 to be a material weakness.

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Houghton Lake Community Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated October 24, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Houghton Lake Community Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Houghton Lake Community Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Houghton Lake Community Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, federal award agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mamie Costeniser & Ellis, P.C.*

October 24, 2008

**HOUGHTON LAKE COMMUNITY SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2007	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2008
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child nutrition cluster:								
National School Lunch Program - Section 4	10.555	071950	\$ 44,946	\$ -	\$ 38,847	\$ 4,447	\$ 4,447	\$ -
National School Lunch Program - Section 4		081950	38,959	-		37,992	38,959	967
National School Lunch Program - Section 11		071960	270,251	11,692	243,248	40,346	28,654	-
National School Lunch Program - Section 11		081960	250,635			244,297	250,635	6,338
			604,791	11,692	282,095	327,082	322,695	7,305
National School Lunch Program - Breakfast	10.553	071970	89,310	4,001	89,310	11,875	7,874	-
National School Lunch Program - Breakfast		081970	88,491			85,993	88,491	2,498
			177,801	4,001	89,310	97,868	96,365	2,498
Total child nutrition cluster			782,592	15,693	371,405	424,950	419,060	9,803
National School Lunch Program - Commodities: Entitlement	10.550		31,366	-	-	31,366	31,366	-
Total U.S. Department of Agriculture			813,958	15,693	371,405	456,316	450,426	9,803
<u>U.S. Department of Education:</u>								
Passed through C.O.O.R.I.S.D.:								
Special Education Cluster:								
Special Education Flow Through Grant	84.027	080450-0708	384,641	-	-	319,899	384,641	64,742
Special Education Flow Through Grant		070450-0607	359,154	107,502	359,154	107,502	-	-
Transition Services Grant		080490/TS	1,814	-	-	-	1,814	1,814
Total Special Education Cluster			745,609	107,502	359,154	427,401	386,455	66,556
Tech-Prep	84.048	083540/7014-6	5,490			5,490	5,490	
Total C.O.O.R.I.S.D.			751,099	107,502	359,154	432,891	391,945	66,556

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2007	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2008
<u>U.S. Department of Education (Continued):</u>								
Passed through Michigan Department of Education:								
Adult Basic Education	84.002	081130-810777	\$ 40,000			\$ 35,418	\$ 37,250	\$ 1,832
		061130-710777	10,000	4,877	9,743	5,134	257	-
		071130-710777	47,300	4,726	46,312	4,677	-	49
		081190-810777	30,000			26,241	29,114	2,873
		071190-710777	33,700	15,046	31,681	15,198	152	-
Total Adult Basic Education			161,000	24,649	87,736	86,668	66,773	4,754
Title I	84.010	081530-0708	579,796			250,000	497,900	247,900
Title I		071530-0607	571,949	89,783	447,663	175,580	50,656	(35,141)
Total Title I			1,151,745	89,783	447,663	425,580	548,556	212,759
Title II - Improving Teacher Quality	84.367	080520-0708	173,046			141,049	166,319	25,270
		070520-0607	170,128	45,413	145,525	67,018	15,119	(6,486)
Total Title II - Improving Teacher Quality			343,174	45,413	145,525	208,067	181,438	18,784
Title V	84.298	080250-0708	7,798	-	-	5,226	5,226	-
Title V		070250-0607	7,637	3,150	3,429	6,948	3,798	-
Total Title V			15,435	3,150	3,429	12,174	9,024	-
Tech Literacy Challenge Grant (IID)	84.318	084290-0708	5,088	-	-	1,718	2,546	828
		074290-0607	5,871	3,146	5,871	3,146	-	-
Total Tech Literacy Challenge Grant			10,959	3,146	5,871	4,864	2,546	828

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2007	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2008
<u>U.S. Department of Education (Concluded):</u>								
Passed through C.O.P.E.S.D.:								
Drug Free Schools	84.186	0708	\$ 8,069	\$ -		\$ 195	\$ 4,101	\$ 3,906
		0607	39,134	3,992	29,180	3,992	-	-
Total C.O.P.E.S.D.			47,203	3,992	29,180	4,187	4,101	3,906
Total Michigan Department of Education			1,729,516	170,133	719,404	741,540	812,438	241,031
Total U.S. Department of Education			2,480,615	277,635	1,078,558	1,174,431	1,204,383	307,587
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,294,573	\$ 293,328	\$ 1,449,963	\$ 1,630,747	\$ 1,654,809	\$ 317,390

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Houghton Lake Community Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The amounts presented in this schedule have been reconciled to the amounts used in the preparation of the financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. (CFDA #84.010) Title 1, (CFDA #10.553 and #10.555) National School Lunch
2. The threshold for distinguishing Type A and B programs was \$300,000.
3. Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Education.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
5. The amounts reported on the Receipt Entitlement Balance Report agree with this schedule for USDA donated food commodities.

**NOTE 3 - RECONCILIATION OF FEDERAL REVENUE**

Federal expenditures reported as revenue in the following funds in the financial statements.

General fund	\$ 1,227,879
Other non-major governmental funds	450,426
Less payment in lieu of taxes	<u>(23,496)</u>
	<u><u>\$ 1,654,809</u></u>



**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Section I - Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

➤ Material weakness(es) identified?   X   Yes        No

➤ Significant deficiency(ies) identified that are not considered to be material weaknesses?        Yes   X   None reported

Noncompliance material to financial statements noted?        Yes   X   No

***Federal Awards***

Internal control over major programs:

➤ Material weakness(es) identified:        Yes   X   No

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es)?   X   Yes        None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?        Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 & 10.555	Child Nutrition Cluster
84.010	Title I

Dollar threshold used to distinguish between type A and type B programs:        \$   300,000  

Auditee qualified as low-risk auditee?        Yes   X   No

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Section II – Financial Statement Findings**

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**Finding 2008-1** Considered a material weakness

**Criteria:** During the year, month-end reconciliations of primary bank accounts were not completed in a timely manner.

**Condition:** During the year, primary cash accounts were not adjusted and reviewed monthly.

**Context:** During the year, there was significant turnover in the business office. In December the school district hired a new full-time business manager. He immediately began to improve the accounting records. Because of the back-log all accounts were not reconciled in a timely manner.

**Effect:** Inaccurate interim financial information may be used for management decisions and reporting.

**Cause:** Completion of reconciliations, primarily in the area of cash was not completed.

**Recommendation:** The District should implement month-end procedures to appropriately reconcile primary accounts on a timely basis. This will improve the accuracy of interim reporting. At June 30, 2008 all of these accounts were reconciled.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**Section III – Federal Award Findings and Questioned Costs**

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**Finding 2008-2**

**Finding considered a significant deficiency**

**Federal Program:** Title I CFDA #84.010 and Title II CFDA #84.367

**Specific Requirement:** Cash management

**Criteria:** The grants in question allows for timely requests for reimbursements.

**Condition:** The District incorrectly forecasted its cash needs throughout the school year, and consequently received cash advances in excess of immediate cash needs.

**Context:** During the year, the District experienced turnover in the business office. The District has reorganized and hired a new business manager.

**Questioned Costs:** The District may owe interest income earned back to the Michigan Department of Education. At June 30, 2008, \$35,141 and \$6,486 had been received and not expended.

**Effect:** The District has excess cash and due to governmental balance at June 30, 2008. The District received the benefit of interest earnings on the unspent federal funds.

**Cause:** Premature request of funds which could not be spent within the subsequent 3 days.

**Recommendation:** The District should base its cash advance requests on estimated expenditures which meet the 3 day cash needs criteria.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Finding 2007-1** Considered a material weakness

**Criteria:** Material audit adjustments were proposed by the external auditor and accepted and recorded by the client.

**Condition:** Adjustments were not made to accurately reflect the transactions taking place at year end.

**Context:** During the year, there was significant turnover in the business office. During the months of July and August, prior year reversing entries were not made by the previous accountant resulting in many of the year-end adjustments.

**Effect:** Inaccurate financial information may be used for management decisions and reporting.

**Cause:** Lack of review by the staff and management of the accounting transactions that have occurred at year end.

**Recommendation:** The District should review year end transactions and record journal entries for any transactions not recorded.

**Status:** At June 30, 2008 material adjustments were not required.

**Finding 2007-2** Considered a material weakness

**Criteria:** During the year, month-end reconciliations of primary asset and liability accounts were not completed in a timely manner. This resulted in year end adjustments to several accounts.

**Condition:** During the year, all cash and other balance sheet accounts were not adjusted and reviewed monthly.

**Context:** During the year, there was significant turnover in the business office. During the months of July and August, prior year reversing entries were not made by the previous accountant. This resulted in certain balance sheet accounts not being adjusted during the year.

**Effect:** Inaccurate interim financial information may be used for management decisions and reporting.

**Cause:** Completion of reconciliations primarily in the area of cash, investments, accounts receivable, accounts payable, accrued liabilities and revenue on a monthly basis was not completed.

**Recommendation:** The District should implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting.

**Status:** At June 30, 2008 these accounts were reconciled.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Finding 2007-3** Considered a material weakness

**Criteria:** Effective for the year ended June 30, 2008, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

**Condition:** Currently, the District's staff prepares the interim financial reports and assists the external auditor in the preparation of the annual audit report.

**Context:** External assistance is required to prepare the annual audit report.

**Effect:** Utilization of the external auditor in preparing the financial statements and footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure the financial statements are accurate.

**Cause:** The staff of the District does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the financial statements and footnotes to the financial statements.

**Recommendation:** At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

**Status:** The new business manager has the expertise to eliminate this comment.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
CORRECTIVE ACTION PLAN  
JUNE 30, 2008  
CONTACT PERSON: MATT LEWIS  
OVERSIGHT AGENCY: U.S. DEPARTMENT OF EDUCATION**

Houghton Lake Community Schools respectfully submits the following corrective action plan for the year ended June 30, 2008.

**Auditor:** Maner, Costerisan & Ellis, P.C.  
544 Cherbourg Drive, Suite 200  
Lansing, Michigan 48917-5010

**Audit Period:** Year ended June 30, 2008

The findings from the June 30, 2008 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

**Finding - Financial statement audit**

**Finding 2008-1** Considered a material weakness

**Recommendation:** The District should implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting.

**Action to be taken:** We concur with the recommendation. We have worked diligently to resolve all issues. We are currently in the process of instituting month-end closing procedures.

**Finding – 2008-2** Considered a significant deficiency

**Recommendation:** The District should base its cash advance requests on estimated expenditures which meet the 3 day cash needs criteria.

**Action to be taken:** We will request reimbursements in the future based on actual expenditures.



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Walter P. Maner, Jr. (1921-2004)  
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October 24, 2008

To the Board of Education  
Houghton Lake Community Schools

In planning and performing our audit of the financial statements of Houghton Lake Community Schools for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 24, 2008 on the financial statements of Houghton Lake Community Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies.

We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

### **PRIOR YEAR COMMENTS - OVERVIEW**

The District considered and attempted to implement all prior year recommendations. During the year the District made the decision to hire a new business manager. Since starting with the District at the first of the year (January 2008), this individual has implemented new procedures and improved controls during the year.

### **PRIOR COMMENTS ADDRESSED:**

#### **Student Activity Funds**

In prior years it was recommended the financial records of the internal funds at each location provide a monthly activity report to the corresponding teacher or organizational leader.

**Status:** These reports are now distributed monthly. Certain adjustments are now made on a monthly basis to reconcile cash balances to the general ledger.

#### **Cash Receipts: Segregation of Duties**

We noted there was a lack of segregation of duties within the cash receipts area. The objective of internal control over cash receipts is to obtain control over amounts received at the time of receipt. We feel that separating these closely related functions in the cash receipts system of Houghton Lake Community Schools will result in much greater internal control in this particular area. To achieve this control, certain duties involving receipts should be handled by more than one member of Houghton Lake Community Schools personnel. The following procedures should be enacted to ensure efficient internal control:



- One employee, preferably the receptionist, should open the mail, make a control list of all receipts, and restrictively endorse all items received as “for deposit only.” This would prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited.
- The receipts should then go to another employee for further processing and deposit to the bank on a timely basis.
- Finally, someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the control list were deposited in a timely manner.

**Status:** The District has implemented certain procedures. The initial listing of cash receipts should be compared to the bank deposit amount by a person other than the individual creating the initial listing. This comparison should be documented by initialing the bank deposit on the initial listing to indicate the two accounts have been reviewed and reconciled.

#### **School District Needs a Business Manager**

The business manager position, a key position, is currently vacant. Since that time, Houghton Lake Community Schools has experienced many problems in the accounting and finance area. The vacancy left by the Business Manager requires that other employees in the accounting department perform the business manager’s duties while still completing their own work. After an extended period of time, working under these conditions, the likelihood for errors increases and the likelihood of employee turnover will also increase. In addition, segregation of duties is diminished. We recommend an experienced individual be selected to fill this position as soon as possible.

**Status:** The District has hired a business manager.

### **Disaster Recovery Plan**

The District utilizes a third party service provider to host its primary student and financial applications. Despite this, the District has a number of applications and corresponding data that is maintained by the District. While the District performs daily backups of these systems, we recommend a formal disaster recovery plan be developed and documented for its in-house applications. We understand the third party service provider has updated and documented its disaster recovery procedures during the current year.

**Status:** We repeat this comment, the District has not had time to address this issue.

### **New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of \$25,000 or less Such as Booster Groups and PTO's**

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally \$25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally \$5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15<sup>th</sup> day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally \$25,000 or less, and;
- Indicate if your organization has terminated (is no longer in business).

**Status:** The District has notified their affiliated organizations of the new reporting requirements.

### **IRS 403(b) Final Regulations**

#### **Intent**

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964.

#### **Effective Date**

These regulations are generally effective for taxable years beginning after December 31, 2008.

Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

#### **Written Plan Document**

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules.

**Status:** This District is working on implementing these new regulations.

## **New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees**

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

Status: The district is aware of these new changes.

## **CURRENT YEAR COMMENTS**

### **Month-end Procedures Checklist**

During the recently completed audit, we were required by new professional auditing standards to review, inspect, test and gain a further understanding of the District's internal controls. The increased emphasis on documentation of procedures performed will continue into the future. We have provided District personnel with a month-end procedures checklist which can be customized further for your District. The purpose of this checklist is to provide District personnel with a centralized list of required month-end procedures, as well as, a place to document who completed the procedure and who reviewed the procedure performed.

We recommend the District consider implementing this checklist on a monthly basis to improve documentation of required month-end procedures and clearly document when and by whom the procedure was performed and reviewed.

### **Uninsured Bank Deposits**

During recent months, we have all heard the numerous issues involving the banking industry. Currently, it is our understanding; there are limits to FDIC insured balances. Generally, the limits are \$100,000 for demand accounts (checking) and \$100,000 for time deposit accounts (savings/certificates of deposit). Districts may also request certain funds be collateralized by the bank. There are other options regarding investing surplus funds from investment pools and treasury investments to commercial paper.

We are not investment advisors; however, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review the District's investment policy to ensure it continues to satisfy the District's goals.

### **Board Approval of Expenditures**

Currently the board does approve expenditures monthly. We recommend the expenditures include reference to the specific check numbers issued during the reporting period.

**Cash Receipts Procedures:**

During our audit we noted the individual creating the initial cash receipt listing prepares the deposit slip and takes the deposit to the bank.

We recommend an individual independent of creating the initial listing should reconcile the amounts listed between the initial listing and deposit slip to ensure all cash received is deposited intact on a timely basis.

**Payroll Procedures:**

During our testing of payroll, we determined the payroll individual performs all payroll functions, entering time cards, hours, amounts, and adding and deleting employees. Upon further investigation, we noted the business manager has full access to the payroll module within CIMS system to make changes.

We recommend the payroll individual not be authorized to add or delete any employees into the payroll software system. We also recommend the maximum a payroll check can be written for in the payroll be reduced from \$30,000.

**Accounting Manual Needed**

During our audit, we noted the District does not have an up-to-date manual of accounting policies and procedures. The purposes of such a manual are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and assist management in delegating and segregating duties. The manual should include:

- An organizational chart,
- Job descriptions, outlining duties and responsibilities,

- Descriptions of methods, procedures, and accounting principles to be followed, including explanations and examples of principle transactions,
- A chart of accounts with detailed explanation of the items to be included therein, and
- Any other documents or forms for which uniformity of use is desired.

We recommend the District develop a comprehensive accounting policies and procedures manual. In the process of developing the manual, we recommend a comprehensive review of the existing accounting system, offering management the opportunity to eliminate or improve procedures and thereby create a more efficient and effective system.

#### **Journal Entry Approval**

Currently, the business manager records journal entries to the accounting records monthly. We tested these journal entries for accuracy and found no errors during our testing.

We do recommend recorded journal entries be reviewed and discussed with the Superintendent on a monthly basis. We also recommend this procedure be documented.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Houghton Lake Community Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Mamie Costeniser & Ellis, P.C.*





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October 24, 2008

To the Board of Education  
Houghton Lake Community Schools

We have audited the financial statements of Houghton Lake Community Schools for the year ended June 30, 2008, and have issued our report thereon dated October 24, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Houghton Lake Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Houghton Lake Community Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Houghton Lake Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Houghton Lake Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Houghton Lake Community Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 25, 2008.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Houghton Lake Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements as a whole.

Certain amounts included in capital assets have estimated based on an outside appraisal company. Certain allocations on the statement of activities allocating revenue between instruction and support services have been used in preparing the statements.

The disclosures in the financial statements are neutral, consistent, and clear. There are no financial statement disclosures which are particularly sensitive because of their significance to financial statement users.

### *Difficulties Encountered in Performing the Audit*

Employee turnover and changes in procedures were ongoing during the current fiscal year. Significant improvements have been made. These changes resulted in delaying the audit completion.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 24, 2008.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Houghton Lake Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Mayer, Costeniser & Ellis, P.C.*